Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Independent Auditor's Report

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying balance sheets of Good Samaritan Hospital (Hospital), a component unit of Knox County, Indiana as of and for the years ended December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Indianapolis, Indiana
May 4, 2016

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Management's Discussion and Analysis
December 31, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and investments decreased in 2015 by $25,141,906 (31%), as the Hospital continued to spend proceeds on construction of new Hospital departments and implementation of integrated electronic health records system. In 2014, total cash and investments decreased by $52,499,868 (39%), as the Hospital continued to spend on construction of new Hospital departments. Cash and investments decreased in 2013 by $27,090,145 (17%) as a result of the Hospital's initial draw on bond funds for construction.
- The Hospital reported an operating loss in 2015 of $(4,907,416) compared to operating income in 2014 of $4,846,667. In 2015, while the Hospital net patient revenue increased by $52,206,272, depreciation expense increased by $5,220,108 or 42%. Additionally, as the Hospital continued to expand its ownership of long-term care facilities, expenses such as salaries, contracted services, and rent increased proportionately. In 2014, the Hospital increased net patient revenue and expanded its ownership of long-term care facilities.
- Net nonoperating revenues decreased by $4,368,584 in 2015 compared to 2014, primarily attributable to decreased market returns on investments and increased interest expense. In 2014, nonoperating revenues decreased by $3,751,077 compared to 2013 as a result of decreased market returns on investments.

The total change in net position in 2015 is a decrease of $(4,692,961) compared to an increase of $9,429,706 in 2014.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital, but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the Balance Sheet. The Hospital's net position decreased by $4,692,961 in 2015 over 2014 and net position increased by $9,429,706 in 2014 over 2013, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2015	2014	2013
Assets			
Patient accounts receivable, net	$ 34,225,736	$ 34,784,233	$ 25,244,826
Other current assets	67,814,069	95,242,761	145,863,829
Capital assets, net	201,387,401	176,145,355	126,380,155
Other noncurrent assets and deferred outflows of resources	1,603,307	2,037,849	2,522,392
Total assets and deferred outflows of resources	$ 305,030,513	$ 308,210,198	$ 300,011,202
Liabilities			
Long-term debt	$ 80,313,219	$ 82,675,754	$ 83,532,512
Other current and long-term liabilities	34,268,745	30,392,934	30,766,886
Total liabilities	114,581,964	113,068,688	114,299,398
Net Position			
Net investment in capital assets	119,115,021	92,382,635	74,665,424
Restricted expendable	5,453,581	6,882,314	9,708,910
Unrestricted	65,879,947	95,876,561	101,337,470
Total net position	190,448,549	195,141,510	185,711,804
Total liabilities and net assets	$ 305,030,513	$ 308,210,198	$ 300,011,202

A significant change in the Hospital's net position in 2015 is a decrease in cash and investments of $25,141,065 (31%) as compared to a decrease in 2014 of $52,499,868 (39%). This decrease in cash and investments resulted primarily from spending of restricted cash from bond proceeds that were received when the 2012 bonds were issued by the Hospital. This decrease was offset by an increase in net capital assets of $27,315,064 and $49,765,200, respectively, for 2015 and 2014.

Net patient service revenues increased in 2015 by $52,206,272 (23%) as compared to 2014, while net patient accounts receivable decreased by $558,497, for a decrease of eleven days of revenue in accounts receivable at December 31, 2015 versus December 31, 2014. Much of this increase is the result of the Hospital's acquisition of several long-term care nursing facilities during 2015 and 2014.

In 2014, patient accounts receivable increased by $9,539,407 (38%). This was consistent with an increase in net patient service revenues in 2014 by $36,151,994 (19%).

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position decreased by $4,692,961 (2.4%) compared to an increase in net position during 2014 of $9,429,706 (5.1%), as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenue			
Net patient service revenue	$ 280,794,026	$ 228,587,754	$ 192,435,760
Other operating revenue	10,330,723	7,418,150	5,645,817
Total operating revenue	291,124,749	236,005,904	198,081,577
Operating Expenses			
Salaries, wages, contract labor and employee benefits	162,866,135	132,178,462	122,638,141
Purchased services and professional fees	52,068,970	35,708,530	31,157,191
Depreciation and amortization	17,587,937	12,367,829	10,096,392
Other operating expenses	63,509,123	50,904,416	38,424,248
Total operating expenses	296,032,165	231,159,237	202,315,972
Operating Income (Loss)	(4,907,416)	4,846,667	(4,234,395)
Nonoperating Revenue (Expenses)			
Investment income	257,528	3,001,370	6,498,872
Noncapital grants and contributions	3,284,798	3,557,527	2,978,666
Interest expense	(3,327,871)	(1,975,858)	(1,143,422)
Total nonoperating revenue	214,455	4,583,039	8,334,116
Increase (Decrease) in Net Position	$ (4,692,961)	$ 9,429,706	$ 4,099,721

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (loss)—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2015, the Hospital reported an operating loss compared to a positive operating margin in 2014 and an operating loss in 2013. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating margin for 2015 decreased by $9,754,083 (201%) as compared to 2014. Operating income for 2014 increased by $9,081,062 (214%) as compared to 2013. The primary components of the fluctuation in operating income are:

- An increase in salaries, wages, contract labor and benefits for the Hospital's employees of $30,687,673 (23%) in 2015 compared to an increase in 2014 of $9,540,321 (8%).
- An increase in purchased services and professional fees of $16,360,440 (46%) in 2015 compared to an increase of $4,551,339 (15%) in 2014.
- An increase in other operating expenses of $34,185,255 (25%) in 2015 compared to 2014. This increase occurred despite the decrease of the Indiana's supplemental Medicaid program, which decreased Hospital assessment fees paid by $5,373,765. This program was previously temporarily terminated until 2014 when the program was retroactively re-instated from July 1, 2013.
- These increases in expenses were offset by an increase in net patient service revenue of $52,206,272 (23%) for 2015 and $36,151,994 (19%) for 2014.

Net patient service revenue increased because the Hospital expanded services by employing a large number of physicians beginning in 2010 and continuing throughout 2015.

Other operating revenue increased by $2,912,573 (39%) from $7,418,150 in 2014 to $10,330,723 in 2015. This increase is primarily the result of a $3.4 million net increase in long-term care facility fees recorded by the Hospital, for supplemental Medicaid payments earned by the Hospital.

Employee salaries, wages, contract labor and benefits increased in 2015 and 2014 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States, along with acquisition of several long-term care nursing facilities during 2015 and 2014.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2015, medical supplies and prescription drug costs totaled $40,778,560 or 15% of total operating expenses. In 2014, they totaled $31,026,267 or 14% of total operating expenses, an increase of $9,752,293 (31%) over 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment returns, contribution and grant income along with interest expense, all of which remained relatively constant in 2015 as compared to 2014 and 2013, except investment return. The Hospital recognized a decrease in its investment return in 2015 compared to 2014, resulting primarily from a decline in the Hospital's investment balance and overall return rates in the market. Total investment return for 2015 was a return of $257,528 compared to a return in 2014 of $3,001,370. Contribution and grant income in 2015 was $3,284,798 compared to $3,557,527 in 2014. The decrease is the result of interest subsidies received by the Hospital during 2014.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2015 and 2014, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015 and 2014, the Hospital had $201,387,401 and $176,145,355, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2015 and 2014, the Hospital purchased new capital assets costing $43,044,162 and $62,096,523, respectively. A significant portion of the 2015 and 2014 capital asset additions were for the master facility plan and the significant Hospital expansion in process at December 31, 2015.

Debt

At December 31, 2015 and 2014, the Hospital had $82,272,380 and $84,345,398, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital did not partake in any significant borrowing activity in 2015. During 2014, the Hospital entered into several new capital lease arrangement. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time. Detailed information regarding the Hospital's long-term debt can be found in Note 9 to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Balance Sheets
December 31, 2015 and 2014

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets		
Cash and cash equivalents	$ 21,456,548	$ 19,121,140
Short-term investments	30,077,030	55,542,933
Restricted cash - current	5,453,581	7,464,992
Patient accounts receivable, net of allowance; 2015 - $11,570,824; 2014 - $16,650,139	34,225,736	34,784,233
Other receivables	5,163,030	4,172,965
Supplies	2,010,642	2,188,742
Prepaid expenses and other	3,653,238	6,751,989
Total current assets	102,039,805	130,026,994
Capital Assets, net	201,387,401	176,145,355
Other Assets	758,924	979,460
Total assets	304,186,130	307,151,809
Deferred Outflows of Resources - losses on debt refunding	844,383	1,058,389
Total assets and deferred outflows of resources	$ 305,030,513	$ 308,210,198

Liabilities and Net Position

	2015	2014
Current Liabilities		
Current maturities of long-term debt	$ 1,959,161	$ 1,669,644
Accounts payable	17,628,397	15,691,215
Accrued expenses	13,229,426	11,944,228
Accrued interest	1,004,459	1,015,034
Estimated amounts due to third-party payers	447,302	72,813
Total current liabilities	34,268,745	30,392,934
Long-Term Debt	80,313,219	82,675,754
Total liabilities	114,581,964	113,068,688
Net Position		
Net investment in capital assets	119,115,021	92,382,635
Restricted - debt service	5,453,581	6,882,314
Unrestricted	65,879,947	95,876,561
Total net position	190,448,549	195,141,510
Total liabilities and net position	$ 305,030,513	$ 308,210,198

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2015 - $21,766,056; 2014 - $18,842,659	$ 280,794,026	$ 228,587,754
Other	10,330,723	7,418,150
Total operating revenue	291,124,749	236,005,904
Operating Expenses		
Salaries, wages and contract labor	126,445,365	103,214,170
Employee benefits	36,420,770	28,964,292
Purchased services and professional fees	52,068,970	35,708,530
Supplies	40,778,560	31,026,267
Utilities	4,536,814	3,480,479
Other expenses	12,720,794	5,550,950
Depreciation and amortization	17,587,937	12,367,829
Provider hospital assessment fee	5,472,955	10,846,720
Total operating expenses	296,032,165	231,159,237
Operating Income (Loss)	(4,907,416)	4,846,667
Nonoperating Revenue (Expense)		
Investment return	257,528	3,001,370
Interest expense	(3,327,871)	(1,975,858)
Noncapital contribution and grant income	3,284,798	3,557,527
Total nonoperating revenue	214,455	4,583,039
Excess (Deficiency) of Revenues Over Expenses and Change in Net Position	(4,692,961)	9,429,706
Net Position, Beginning of Year	195,141,510	185,711,804
Net Position, End of Year	$ 190,448,549	$ 195,141,510

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	$ 280,736,947	$ 217,833,681
Payments to suppliers and contractors	(103,752,015)	(92,713,092)
Payments to employees	(164,023,677)	(128,791,891)
Other receipts	10,330,723	7,418,150
Net cash provided by operating activities	23,291,978	3,746,848
Noncapital Financing Activity - grants and gifts	2,910,309	3,557,527
Capital and Related Financing Activities		
Principal paid on long-term obligations	(2,082,165)	(1,417,486)
Interest paid on long-term obligations	(5,033,645)	(4,320,309)
Purchase of capital assets	(44,485,911)	(57,017,818)
Net cash used in capital and related financing activities	(51,601,721)	(62,755,613)
Investing Activities		
Interest and dividends	1,150,414	1,587,865
Proceeds from disposition of investments	42,855,486	25,395,137
Purchase of investments	(18,282,469)	(17,546,572)
Net cash provided by investing activities	25,723,431	9,436,430
Increase (Decrease) in Cash and Cash Equivalents	323,997	(46,014,808)
Cash and Cash Equivalents, Beginning of Year	26,586,132	72,600,940
Cash and Cash Equivalents, End of Year	$ 26,910,129	$ 26,586,132
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (4,907,416)	$ 4,846,667
Depreciation and amortization	17,587,937	12,367,829
Loss on disposal of capital assets	335,028	86,522
Provision for uncollectible accounts	21,766,056	18,842,659
Changes in operating assets and liabilities		
Patient and other accounts receivable	(22,197,624)	(29,596,732)
Supplies	178,100	(199,064)
Prepaid expenses and other assets	3,312,296	(1,390,836)
Estimated amounts due to third-party payers	374,489	(484,937)
Accounts payable and accrued expenses	6,843,112	(725,260)
Net cash provided by operating activities	$ 23,291,978	$ 3,746,848
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ 109,295	$ 925,568
Capital asset acquisitions included in accounts payable	3,710,513	7,331,245
Amortization of deferred loss on refunding	214,006	214,006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

In accordance with GASB Statement No. 61, the financial statements include the financial statements of Good Samaritan Hospital Foundation and Good Samaritan Hospital Physician Services, Inc.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for the Foundation.

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. Separate audited financial statements are not issued for Physician Services.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2015	2014
Interest costs capitalized	$ 1,695,199	$ 2,334,140
Interest costs charged to expense	3,327,871	1,975,858
Total interest incurred	$ 5,023,070	$ 4,309,998

Intangible Assets

Intangible assets, which are reported in other assets, represent assets recognized during business purchases during 2013 and 2012. The intangible assets are subject to amortization and are deemed to have a weighted-average useful life of approximately five to ten years. The amortized cost of the assets was $458,599 and $679,135 at December 31, 2015 and 2014, respectively. The Hospital recognized amortization expense of $220,536 during each of 2015 and 2014.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the Hospital that is applicable to a future reporting period. Deferred outflows of resources are reported in the balance sheets but are not recognized in the financial statements as expenses until the periods to which they relate. Deferred outflows of resources of the Hospital consist of deferred losses on debt refundings (defeasance costs).

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings, and unspent borrowings to be used for capital acquisitions. Unrestricted net position is remaining assets, less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Foregone charges for charity care approximated $11,240,000 for 2015 and $12,930,000 for 2014. Estimated cost based on the Hospital's records was $3,480,000 for 2015 and $4,350,000 for 2014.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Physician Services is exempt from income taxes under Section 509(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs. During 2015 and 2014, the Hospital recorded revenue of approximately $987,500 and $1,675,000, respectively, for the Medicare and Medicaid incentive programs.

Long-Term Nursing Facilities

During 2015 and 2014, the Hospital acquired two and seven nursing home operations, respectively, through the execution of a licensing agreement, management agreement and lease agreement with third parties. These facilities provide inpatient and therapy services and support the Hospital's mission to provide quality care and services to the facility's residents. The nature of the agreements provide the Hospital the rights to all operating assets, government provider numbers and real estate. In connection with these agreements, the Hospital simultaneously entered into a management agreement with a third party to execute the operations of the nursing homes. The agreements have cancellation clauses, without cause, given appropriate notice. As the Hospital is a non-state government-owned hospital, it is entitled to certain special Medicaid payments, which are reflected in the balance sheets and statements of revenues, expenses and changes in net position. These special Medicaid payments recognized during 2015 and 2014 were approximately $5.6 million and $2.2 million, respectively, net of required intergovernmental payments.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

These payment arrangements include:

Medicare:

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient non-acute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Long-term care services rendered to Medicare program beneficiaries are paid under a prospectively determined payment system on a per diem basis on each resident's health at admission. Medicare reimburses for up to 100 days of skilled nursing facility care subject to certain eligibility requirements.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

Long-term care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately $6,300,000 of net patient service revenue related to this supplemental payment program for the year ended December 31, 2015 and approximately $1,800,000 for the year ended December 31, 2014.

The Hospital participates in a state-specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of revenues, expenses and changes in net position. The Hospital paid approximately $5.5 million and $10.8 million for 2015 and 2014, respectively, into this Medicaid program, which is recorded as an operating expense in the statements of revenues, expenses and changes in net position. During 2014, this program was re-instated retroactively to July 1, 2013 and this program is scheduled to sunset on June 30, 2017. There is no assurance this program will continue to be implemented in the future.

Approximately 44% of net patient service revenue for 2015 and 2014 is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds that are deposited in approved financial institutions in the event of financial institution failures.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

At December 31, 2015 and 2014, the Hospital had the following investments and maturities:

	2015		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 29,827,030	$ 29,827,030	$ -
Money market mutual funds	4,986,123	4,986,123	-
	$ 34,813,153	$ 34,813,153	$ -

	2014		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 55,292,933	$ 55,292,933	$ -
Money market mutual funds	11,131,978	11,131,978	-
	$ 66,424,911	$ 66,424,911	$ -

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 65% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	$ 22,174,006	$ 15,704,154
Investments	34,813,153	66,424,911
	$ 56,987,159	$ 82,129,065
Included in the following balance sheets captions		
Cash and cash equivalents	$ 21,456,548	$ 19,121,140
Short-term investments	30,077,030	55,542,933
Restricted cash - current	5,453,581	7,464,992
	$ 56,987,159	$ 82,129,065

Investment Return

Investment return for the years ended December 31, 2015 and 2014 consisted of:

	2015	2014
Interest and dividend income	$ 1,150,414	$ 1,587,865
Realized gains from sales of investments	1,621,377	1,354,321
Net increase (decrease) in fair value of investments	(2,514,263)	59,184
	$ 257,528	$ 3,001,370

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2015 and 2014 consisted of:

	2015	2014
Medicare	$ 9,257,660	$ 11,331,195
Medicaid	1,674,158	8,943,716
Other third-party payers	20,078,930	10,325,179
Patients	14,785,812	20,834,282
	45,796,560	51,434,372
Less allowance for uncollectible accounts	11,570,824	16,650,139
	$ 34,225,736	$ 34,784,233

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2015 and 2014

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

2015

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 8,487,647	$ 290,338	$ -	$ (1,575,000)	$ 7,202,985
Land improvements	6,102,833	1,550,685	(37,157)	1,575,000	9,191,361
Buildings and leasehold improvements	88,343,615	-	(61,624)	34,676,819	122,958,810
Equipment	150,954,732	1,533,401	(3,991,402)	55,186,347	203,683,078
Construction in progress	92,840,682	39,669,738	(19,674)	(89,863,166)	42,627,580
	346,729,509	43,044,162	(4,109,857)	-	385,663,814
Less accumulated depreciation					
Land improvements	4,354,395	447,699	(17,946)	49	4,784,197
Buildings and leasehold improvements	52,616,661	3,401,071	(30,308)	(49)	55,987,375
Equipment	113,613,098	13,618,318	(3,726,575)	-	123,504,841
	170,584,154	17,467,088	(3,774,829)	-	184,276,413
Capital assets, net	$ 176,145,355	$ 25,577,074	$ (335,028)	$ -	$ 201,387,401

2014

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 6,474,187	$ 2,013,460	$ -	$ -	$ 8,487,647
Land improvements	5,832,114	270,719	-	-	6,102,833
Buildings and leasehold improvements	83,238,261	-	-	5,105,354	88,343,615
Equipment	137,582,936	3,758,516	(1,598,103)	11,211,383	150,954,732
Construction in progress	53,140,366	56,053,828	(36,775)	(16,316,737)	92,840,682
	286,267,864	62,096,523	(1,634,878)	-	346,729,509
Less accumulated depreciation					
Land improvements	4,015,610	338,785	-	-	4,354,395
Buildings and leasehold improvements	49,990,487	2,626,174	-	-	52,616,661
Equipment	105,881,612	9,279,842	(1,548,356)	-	113,613,098
	159,887,709	12,244,801	(1,548,356)	-	170,584,154
Capital assets, net	$ 126,380,155	$ 49,851,722	$ (86,522)	$ -	$ 176,145,355

Construction in progress primarily includes architectural, planning costs and construction costs for the Hospital expansion, among other projects.

Note 6: Operating Leases

The Hospital leases various facilities and equipment under operating leases expiring at various dates through 2020. Total rental expense in 2015 and 2014 for these operating leases was approximately $11,483,000 and $4,655,000, respectively.

Future minimum lease payments under operating leases as of December 31, 2015 were:

2016	$ 10,662,757
2017	2,672,339
2018	1,167,403
2019	354,761
2020	141,756
	$ 14,999,016

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $200,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	$ 1,551,753	$ 1,430,286
Current year claims incurred and changes in estimates for claims incurred in prior years	18,258,075	16,772,492
Claims and expenses paid	(18,335,240)	(16,651,025)
Balance, end of year	$ 1,474,588	$ 1,551,753

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

2015	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2012 (a)	$ 80,695,000	$ -	$ 1,945,000	$ 78,750,000	$ 1,455,000
Plus: Unamortized bond premium	2,737,365	-	100,148	2,637,217	-
Capital lease obligations	913,033	109,295	137,165	885,163	504,161
Total long-term debt	$ 84,345,398	$ 109,295	$ 2,182,313	$ 82,272,380	$ 1,959,161

2014	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2012 (a)	$ 82,065,000	$ -	$ 1,370,000	$ 80,695,000	$ 1,410,000
Plus: Unamortized bond premium	2,837,512	-	100,147	2,737,365	-
Capital lease obligations	34,951	925,568	47,486	913,033	259,644
Total long-term debt	$ 84,937,463	$ 925,568	$ 1,517,633	$ 84,345,398	$ 1,669,644

(a) The economic development revenue and refunding bonds (Bonds) were issued in the original amount of $83,395,000 dated April 2012, which bear interest at 2.5% to 5.9%. The Bonds are payable in semi-annual installments through 2042. The Hospital is required to make annual deposits to the debt service fund held by the trustee, which are included as restricted cash in the balance sheets. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Under the master indenture, the Hospital is required to maintain a debt service coverage ratio of at least 1.25, measured annually and must have no less than 65 days of cash on hand measured semi-annually. Of the 2012 bonds issued, $16,210,000 were issued as Qualified Energy Conservation Bonds (QECB), which are eligible for interest subsidy payments from the United States Treasury. Subsidy payments (following 2014 sequestration, which lowered the subsidies by approximately 7.2%) to be received on these bonds are as follows:

Year Ending December 31,	Amount to be Received
2016	$ 492,805
2017	492,805
2018	492,805
2019	492,805
2020	492,805
2021-2025	2,464,026
2026-2030	2,403,679
2031-2035	820,987
	$ 8,152,717

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 2002 bonds in the original principal amount of $21,270,000, through a current refunding with the 2002 bonds called July 1, 2012. Additionally, the Hospital defeased its outstanding 2004 bonds in the original principal amount of $17,210,000, through an advance refunding. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased 2004 bonds. This advance refunding transaction on the 2004 bonds resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2004 bonds at the time of the defeasance. Accordingly, the 2004 bonds, aggregating $10,665,000 at December 31, 2013, remained outstanding, but were excluded from the Hospital's balance sheet beginning in 2012. The 2004 bonds were fully called for redemption on February 1, 2014.

The debt service requirements as of December 31, 2015, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2016	$ 5,451,015	$ 1,455,000	$ 3,996,015
2017	5,449,090	1,505,000	3,944,090
2018	5,447,690	1,565,000	3,882,690
2019	5,452,015	1,625,000	3,827,015
2020	5,450,390	1,690,000	3,760,390
2021-2025	27,250,200	9,840,000	17,410,200
2026-2030	27,246,085	12,650,000	14,596,085
2031-2035	26,713,420	16,230,000	10,483,420
2036-2040	27,248,750	21,820,000	5,428,750
2041-2042	10,895,000	10,370,000	525,000
	$ 146,603,655	$ 78,750,000	$ 67,853,655

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2015 totaled $719,682, net of accumulated depreciation of $431,615. Assets under capital leases at December 31, 2014 totaled $786,316, net of accumulated depreciation of $157,242. Interest rates range from 3.75% to 4.0% on these leases. Total future lease payments are:

2016	$ 504,161
2017	380,144
2018	41,898
2019	4,400
Total minimum lease payments	930,603
Less amount representing interest	45,440
Present value of future minimum lease payments	$ 885,163

Note 10: Blended Component Units

The financial statements include the blended component unit accounts of Physician Services and the Foundation as discussed in Note 1. The following is a financial summary of the component units as of December 31, 2015 and 2014.

	Physician Services		Foundation	
	2015	2014	2015	2014
Total current assets - receivables	$ 2,926,222	$ 2,852,653	$ 4,062,025	$ 4,440,632
Total noncurrent assets	173,961	280,616	275,096	277,385
Total assets	$ 3,100,183	$ 3,133,269	$ 4,337,121	$ 4,718,017
Total liabilities	$ 200,525	$ 640,152	$ 1,101	$ 3,612
Net position	2,899,658	2,493,117	4,336,020	4,714,405
Total liabilities and net position	$ 3,100,183	$ 3,133,269	$ 4,337,121	$ 4,718,017
Revenue	$ 32,183,317	$ 32,130,118	$ 487,682	$ 706,709
Expenses	(47,515,091)	(45,167,666)	(1,277,821)	(1,134,327)
Transfer from Hospital	15,738,315	12,909,161	411,754	224,006
Change in net position	406,541	(128,387)	(378,385)	(203,612)
Net position, beginning of year	2,493,117	2,621,504	4,714,405	4,918,017
Net position, end of year	$ 2,899,658	$ 2,493,117	$ 4,336,020	$ 4,714,405

Note 11: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's Board of Governors. The current contributions rate is 7% of the first $9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2015 and 2014 was $6,593,618 and $6,432,519, respectively.

Note 12: Contingencies and Commitments

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Commitments

During 2012, the Hospital commenced implementation of a revised master facility plan that includes construction and equipping of certain Hospital facilities including a new tower to include numerous departments. The master facility plan also includes significant renovations to certain existing facilities within the Hospital, and construction of a new central plant as well as various energy efficiency improvements.

As part of these significant renovations, improvements and additions, the Hospital has entered into various contracts as of year-end for the necessary work to be performed. The total cost of the project is expected to be approximately $114 million, with approximately $99 million incurred through December 31, 2015.

In March 2015, the Hospital entered into an agreement with Deaconess Hospital, Inc. to implement a new Hospital-wide information system. The total expected cost of the project is $17 million, payable over the life of the agreement.

Note 13: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation required the establishment of health insurance exchanges, which provides individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products.

Another significant component of PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs may be substantially decreased. Each state's participation in an expanded Medicaid program is optional. In 2015, the state of Indiana expanded its Medicaid program with the implementation of the Healthy Indiana Plan (HIP) 2.0. Under HIP 2.0, the first $2,500 of beneficiary medical expenses are reimbursed from special savings accounts funded partly by the state and partly by the beneficiary. The impact of Medicaid expansion under the HIP 2.0 program on the Hospital's revenue is currently unknown.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.